

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 AID-20 CEA-02 COME-00 EB-11 FRB-02 IO-14

NEA-10 OPIC-12 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 FEA-02 SCI-06 AGR-20 STR-08 ABF-01 FS-01 DRC-01

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FM USMISSION OECD PARIS

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INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: EFIN, OECD

SUBJECT: RESTRICTED MEETING BETWEEN BANKERS AND MEMBERS
COMMITTEE ON FINANCIAL MARKETS

1. SUMMARY: SELECTED MEMBERS OF COMMITTEE ON FINANCIAL
MARKETS (CMF) AND PRIVATE BANKERS MET ON MARCH 6 TO
DISCUSS IMPACT OIL PRICE RISE ON INTERNATIONAL AND
NATIONAL MARKETS. DISCUSSION COVERED LIKELY TIMING,
VOLUME AND FORM OF OIL PRODUCERS' INVESTMENTS, ABILITY
OF MARKETS TO ABSORB AND RECYCLE THESE INVESTMENTS,
PROBLEM OF CREDIT-WORTHINESS OF BORROWERS, QUESTION OF
"CONGESTION" OF BORROWERS, AND INFORMATION FLOWS. END
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SUMMARY.

2. FOLLOWING REGULAR CMF MEETING (REPORTED SEPTTEL), OECD SECRETARIAT ORGANIZED RESTRICTED MEETING MARCH 6 BETWEEN SOME CMF MEMBERS, INCLUDING U.S. (PARTEE AND KORP), U.K., FRANCE, GERMANY, JAPAN, NETHERLANDS, BELGIUM AND IBRD (ROTBURG) AND GROUP PRIVATE BANKERS (RICHEBACHER OF DRESDNER, VAN YPERSELE OF BANQUE DE BRUXELLES, GUYOT OF LAZARD, VILLECHAISE OF MORGAN ET CIE., KAGAMI OF NOMURA, LONDON, GORDON OF S.G. WARBURG AND HOOGENDYK OF AMSTERDAM ROTTERDAM BANK). BANKERS CONFIRMED CMF IMPRESSION THAT DUE TO SEASONALITY OIL PAYMENTS (STERLING PAYMENTS ARE MADE IN JAN, APRIL, JULY AND OCTOBER, AND MANY DOLLAR OIL PAYMENTS APPEAR TO FOLLOW LARGELY SIMILAR PATTERN) FIRST SHARP INCREASE IN FUNDS AVAILABLE TO OIL PRODUCERS DUE PETROLEUM PRICE INCREASES WILL NOT TAKE PLACE UNTIL APRIL. (HOWEVER, AS NOTED BY PARTEE, FINANCIAL SITUATION NOT UNAFFECTED SINCE OIL COMPANIES ARE IN PROCESS ACCUMULATING FUNDS IN ANTICIPATION OF PAYMENTS TO PRODUCERS.) BANKERS ALSO AGREED WITH CMF BELIEF THAT ARAB OIL PRODUCERS WILL TEND TO CONCENTRATE INITIAL INVESTMENTS IN SHORT-TERM DEPOSITS AND C/D'S IN EURODOLLAR MARKET. RICHEBACHER OBSERVED THAT IT WAS NATURAL TO EXPECT OIL COUNTRIES INITIALLY TO FOLLOW TRADITIONAL INVESTMENT PATTERNS AND THAT THEIR PREFERENCE FOR LIQUIDITY WAS NOT SURPRISING, BEING TYPICAL BEHAVIOR OF MONETARY AUTHORITIES PARTICULARLY AT INITIAL STAGES OF RESERVE ACCUMULATION. AS RESERVES GROW THEY MAY BE MORE WILLING TO GO INTO LONGER-TERM INVESTMENTS, GIVEN SUFFICIENT INTEREST RATE INCENTIVE.

3. PARTEE DESCRIBED LARGE ABSORPTIVE AND RECYCLING CAPACITY OF U.S. MARKET, INCLUDING BANKING SYSTEM WHICH WAS PREPARED TO PLAY AN ACTIVE ROLE IN INTERMEDIATION. U.S. HAS NO PROBLEM IN ACCEPTING SHORT-TERM DEPOSITS AND TRANSFORMING THEM INTO LONG-TERM CREDITS FOR WORTHY BORROWERS. BANKERS GENERALLY CONCURRED THAT EURODOLLAR AND U.S. MARKETS WOULD BE ABLE TO ABSORB AND RECYCLE FUNDS AS LONG AS NEEDY BORROWING COUNTRIES REMAINED CREDIT-WORTHY. HOWEVER, SOME BANKERS (GILLOT, VILLECHAISE) SUGGESTED RECENT SOUNDINGS HAVE SHOWN NEW LIMITED OFFICIAL USE

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YORK MARKET WILL NOT BE EASILY TAPPED BY FOREIGN BOND ISSUES. U.S. INSTITUTIONAL INVESTORS APPEAR CAUTIOUS AND INSURANCE COMPANIES AND PENSION FUNDS ARE LIMITED IN PROPORTION OF FUNDS THEY CAN EMPLOY ABROAD.

4. BANKERS SHOWED SOME CONCERN THAT ABILITY OF MARKET TO PERFORM INTERMEDIARY ROLE NECESSARY TO MATCH OIL COUNTRIES' SUPPLY OF FUNDS WITH FINANCING NEEDS OF OECD

COUNTRIES HAVING CURRENT ACCOUNT DEFICITS MIGHT BE IMPEDED BY UNCOORDINATED MONETARY POLICIES FOLLOWED BY INDIVIDUAL COUNTRIES. ROTBERG RAISED POSSIBILITY OF WIDENING SPREAD BETWEEN LOW U.S. INTEREST RATES AND HIGH RATES IN OTHER OECD COUNTRIES, WITH RESULT THAT THERE COULD BE MASSIVE SHIFTS OF ARAB FUNDS INTO GUILDERS, D.M. OR YEN. HOWEVER, PARTEE POINTED TO FACTORS INCREASING LINKAGE OF U.S. AND EURODOLLAR MARKETS, AND SELF-CORRECTING INFLUENCE OF FLOATING EXCHANGE RATES. SECRETARIAT (BERTRAND) POINTED TO SUPPORT FOR DOLLAR INTEREST RATES WHICH IS EXPECTED TO COME FROM STRONG BORROWING DEMAND.

5. "CONGESTION" OF MARKET BY BORROWERS WAS NOT CONSIDERED PROBLEM BY BANKERS, NOR DID THEY BELIEVE CREDITWORTHINESS QUESTION WOULD ARISE SERIOUSLY FOR OECD COUNTRIES THIS YEAR. HOWEVER, THEY FELT LATTER QUESTION COULD BECOME ISSUE IN FUTURE. IN ANSWER TO QUESTION AS TO WHY FRENCH BORROWED \$1.5 BILLION IN ADVANCE OF EVIDENT REQUIREMENTS, FRENCH TREASURY OFFICIAL (DE LA MOTTE) ACKNOWLEDGED LOAN WAS PRECAUTIONARY AND PARTLY DESIGNED TO SHOW GOVERNMENT'S ABILITY TO MASTER POTENTIAL PROBLEMS.

6. BANK OF ENGLAND (HAWKINS), STATED THAT AS A RESULT OF REQUESTS FOR IMPROVED STATISTICS ON EUROMARKET TRANSACTIONS, BIS IS CONSIDERING FEASIBILITY OF ESTABLISHING AN ADDITIONAL SYSTEM OF DATA GATHERING TO HELP IDENTIFY TOTAL BORROWING BURDEN BY COUNTRIES. HE ASKED WHETHER BANKERS WOULD COOPERATE IN SUCH VENTURE. BANKERS REPLIED THAT DATA ON COUNTRIES' OUTSTANDING CREDIT EXPOSURE WOULD BE VERY USEFUL. TOMBSTONE INFORMATION IS INADEQUATE AND INCOMPLETE. HOWEVER, THERE IS PROBLEM LIMITED OFFICIAL USE

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FOR BANKS IN REPORTING BORROWERS WHO DESIRE ANONIMITY AND WHO MIGHT BE IDENTIFIED EVEN IF ONLY AGGREGATE COUNTRY DATA ARE REPORTED.

7. ANOTHER RESTRICTED MEETING WITH BANKERS IS TENTATIVELY SCHEDULED FOR JULY 3 (IN ADVANCE OF NEXT CMF MEETING JULY 4 AND 5).BROWN

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